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SENSITIVE
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TAGS: EFIN ECON PGOV JO
SUBJECT: EXPAT REMITTANCES AND OTHER ECONOMIC INDICATORS FALL; RESERVES AND LIQUIDITY STAY STRONG

REFS: A) Amman 1646
B) Amman 1378
C) Amman 1177
D) 08 Amman 2799
E) 07 Amman 4207

¶1. (SBU) Summary: The global economic crisis continues to hit Jordan. Jordanian remittances fell 4.4% during the first half of ¶2009. Other economic indicators, including foreign direct investment, imports, and exports, are also all down for the first half of 2009. Jordan's currency reserves and liquidity remain high, giving Jordan the option to raise funds locally, in theory. However, Jordan's internal borrowing has caused the net central government domestic debt to reach an all-time high of USD 7.73 billion. End summary.

Remittances Fall

¶2. (U) Central Bank of Jordan (CBJ) officials confirmed to EconOffs that remittances from Jordanians living and working outside of the country have gone down significantly. Omar Zubi, CBJ Executive Director of Research, reported that remittances in the first six months of 2009 stood at USD 1.74 billion against USD 1.82 billion during the same period in 2008, a 4.4% drop. The drop was more pronounced, however, when comparing the June 2009 12.1% (USD 334 million) decrease with June 2008, which saw a 20.6% or USD 380 million increase from the previous year. Remittances historically amount to about 20% of Jordanian GDP (ref E).

¶3. (SBU) Zubi linked the decline in remittances to the general decline in global economic activity, arguing that Jordanians in the Arabian Gulf were earning less, thus saving less, and were also keeping more money close at hand instead of sending it home to Jordan. Zubi denied a common perception on the Jordanian street that there has been a drastically high number of Jordanians returning from the Gulf after losing their jobs. He claimed Ministry of Labor research through Jordanian Embassies abroad has not shown mass layoffs of Jordanian workers in the Gulf. Zubi did concede, however, that the overall picture of Jordanian expats in the Gulf could become worse and informed EconOffs that an interagency committee including members from the CBJ and from the ministries of Finance, Labor, and Planning and International Cooperation has been formed to analyze the economic plight of Jordanian expats.

Slow Growth Now, Bigger Budget Shock Next Year

¶4. (SBU) Zubi further informed EconOffs that the Government of

Jordan (GOJ) has also established a crisis committee to monitor the overall effects of the global economic crisis on Jordan's economy. While touting Jordan's economic stability, Zubi fears that the worst is yet to come. He reported that GDP growth in the first quarter of 2009 was 3.2% and he expects it to stay between 3% and 4% for the rest of the year, compared to 7.9% in 2008 and 8.9% in 2007. Jordan's budget deficit has ballooned and Zubi expects the budget situation to look even worse in 2010 because the slight growth in government revenue from taxes on individuals and businesses that Jordan saw in early 2009 was based on a good 2008 economic climate which will not be replicated in 2009 (ref A).

Economic Indicators Down

¶5. (SBU) According to Zubi and Central Bank figures, the main economic indicators are all currently negative, a direct result of the world economic crisis.

-- Foreign Direct Investment (FDI) is down in Jordan and throughout the region. In 2008, Jordan's first quarter FDI reached approximately USD 1.97 billion while in the first quarter of 2009, it only reached USD 219 million. The Central Bank projected that FDI would be down by more than 30% by the end of 2009.

-- On the fiscal side, the budget deficit continued to grow (ref A).

-- In addition to the inflow of remittances being down 4.4% during the first half of the year, the outflow of remittances from Jordan by foreign nationals sending money to their home countries is also

down for the first quarter of 2009, amounting to USD 111.6 million in comparison to USD 124 million in the first quarter of 2008, a 10% drop.

-- Exports from January to June 2009 were down 11.7% to USD 3.3 billion compared to USD 3.7 billion during the first six months of ¶2008. The year-on-year decline for June 2008 to June 2009 was 30.5%, dropping to USD 385 million from USD 554 million.

-- Imports slowed 24.5% in May 2009 compared to May 2008, and total imports in the first five months of the year decreased 22%, totaling USD 5.4 billion as opposed to USD 6.9 billion in 2008. Zubi explained that the drop in imports was driven mainly by the reduction in fuel imports, both in terms of value and quantity. Aggregate demand is another important factor hurting imports, as the reduced number of orders at garment factories has affected both exports and imports (Ref C and septel).

Strong Reserves and Liquidity

¶6. (SBU) In a bit of good news, currency reserves are currently at their all time high of USD 9.7 billion, which can cover the value of projected imports for six and one-half months, much longer than the internationally-accepted practice of three months, Zubi explained. Foreign currency reserves over the first five months of 2009 grew by USD 1.25 billion or 16.1% since the end of 2008. The increase in reserves has been driven by the current account deficit, which was reduced from 11% of GDP in the last quarter of 2008 to 5% of GDP in the first quarter of 2009, according to Zubi. (Note: This drop in the current account deficit was triggered by the trade deficit, which was narrowed by 35% or USD 2 billion compared to the same period in 2008, mainly due to lower fuel prices (Ref B). End note.) Also, inflation remained low at 0.5% in the first six months of 2009, mainly due to the general drop in fuel and commodities prices, compared to 2008 (septel).

¶7. (SBU) Zubi is optimistic that the GOJ has the flexibility to raise funds locally at cheaper than the usual rates given the large amounts of domestic liquidity available and the current conservative lending policies of Jordanian banks. Domestic liquidity stood at JD 19.1 billion (USD 26.98 billion) at the end of May 2009, an increase of 4.4% compared to the 2008 end-of-year figure and 8.1% higher when

compared to the same period last year. Zubi told EconOffs that the Central Bank could, in theory, raise funds locally for budget or capital expenditure needs by offering different instruments such as development bonds, public entity bonds, treasury bills or treasury bonds at cheaper rates. (Note: Jordan's Central Bank has not issued development bonds during the past eight years but does regularly issue short-term (90 days to three years) public entity bonds, treasury bills and treasury bonds. End note.) Zubi said that the Central Bank theoretically had the option to raise funds through offering different instruments for as low as 3% to commercial banks compared to the 6% rates offered previously. Despite criticisms for conservative practices, the Central Bank has offered 17 different issues of lower-rate instruments totaling more than USD 1.69 billion through the first half of 2009.

¶8. (SBU) Adel Sharkas, the Central Bank's Director of Money Market Instruments, clarified to EconOff that the GOJ generally issues Money Market Instruments to fund the amortization of previous issues and that the net amount at the end of the year would be minimal in comparison. He explained that while the GOJ has issued USD 1.69 billion worth of instruments from January to July 2009, the net amount so far is only USD 1.27 billion. According to Sharkas this "honeymoon" of being able to raise funds cheaply will not last for long. Once economic activities pick up, banks will prefer to lend to the market at 11%, 12%, or even 14% rather than to the government at 3%.

Domestic Debt Grows

¶9. (SBU) The GOJ has resorted to these internal borrowing measures to help address fiscal needs caused by the significant budget deficit (ref A). This has contributed to high levels of domestic debt. As of the end of June 2009, the net central government domestic debt stood at an all time high of USD 7.73 billion, nearly 38% more than the June 2008 figure of USD 5.61 billion and 11.5% higher than the December 2008 figure of USD 6.94 billion.

¶10. (SBU) Comment: While there are positive fiscal indicators such as strong reserves and high liquidity, these positive indicators are unlikely to last long given the growing budget deficit, slow growth, low revenues and an even more difficult budget and commercial environment expected next year. End comment.

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